

NIE 51-57

8 October 1957

~~SECRET~~

6243

Nº 288

NATIONAL INTELLIGENCE ESTIMATE

NUMBER 51-57

Graham

CONSEQUENCES OF ECONOMIC CRISIS IN INDIA

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 8 October 1957. Concurring were the Director of Intelligence and Research, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Assistant Chief of Staff, Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

~~SECRET~~

DOCUMENT NO. 1
NO CHANGE IN CLASS. ☐
☒ DECLASSIFIED
CLASS. CHANGED TO: TS S G
NEXT REVIEW DATE: _____
AUTH: HR 70-2
DATE: 7-26-81 REVIEWER: 009256

CENTRAL INTELLIGENCE AGENCY

DISSEMINATION NOTICE

1. This estimate was disseminated by the Central Intelligence Agency. This copy is for the information and use of the recipient indicated on the front cover and of persons under his jurisdiction on a need to know basis. Additional essential dissemination may be authorized by the following officials within their respective departments:

- a. Special Assistant to the Secretary for Intelligence, for the Department of State
- b. Assistant Chief of Staff, Intelligence, for the Department of the Army
- c. Director of Naval Intelligence, for the Department of the Navy
- d. Director of Intelligence, USAF, for the Department of the Air Force
- e. Deputy Director for Intelligence, Joint Staff, for the Joint Staff
- f. Director of Intelligence, AEC, for the Atomic Energy Commission
- g. Assistant Director, FBI, for the Federal Bureau of Investigation
- h. Assistant Director for Central Reference, CIA, for any other Department or Agency

2. This copy may be retained, or destroyed by burning in accordance with applicable security regulations, or returned to the Central Intelligence Agency by arrangement with the Office of Central Reference, CIA.

3. When an estimate is disseminated overseas, the overseas recipients may retain it for a period not in excess of one year. At the end of this period, the estimate should either be destroyed, returned to the forwarding agency, or permission should be requested of the forwarding agency to retain it in accordance with IAC-D-69/2, 22 June 1953.

4. The title of this estimate, when used separately from the text, should be classified:

FOR OFFICIAL USE ONLY

WARNING

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

DISTRIBUTION:

White House
National Security Council
Department of State
Department of Defense
Operations Coordinating Board
Atomic Energy Commission
Federal Bureau of Investigation

CONSEQUENCES OF ECONOMIC CRISIS IN INDIA¹

THE PROBLEM

To estimate the political and economic effects of India's growing economic crisis.

SUMMARY

1. We believe Nehru plans to press ahead as long and as far as he can with India's Second Five Year Plan which emphasizes the buildup of the industrial base needed for further economic development. Nehru and his Congress Party have aroused so much popular interest in and effort behind the plan that it has become the symbol of the effectiveness of democratic government as well as a test of Nehru as a leader.

2. India does not have the necessary foreign exchange resources and the plan always assumed that India would receive some foreign exchange loans. However, the demands on India's foreign exchange resources have been greater and earlier than anticipated, and in the absence of substantial additional foreign aid, the plan will fail.

3. The government has already tacitly cut the original program to what it considers the hard core minimum but there remains a foreign exchange gap to fill during the next three and a half years of at least \$1.4 billion. The requirements

for foreign exchange are likely to be particularly heavy during the first eighteen months of this period. By drawing down reserves to a risky level, part of the gap can be filled. India expects to get substantial help from the IBRD and will increase its efforts to attract private foreign capital.

4. Major reliance, however, is being placed on loans from the West, particularly the US. India probably believes that a US example would stimulate aid from the UK, West Germany, Japan, and perhaps others. While further aid from the Bloc would be accepted, India would probably be reluctant to become too dependent on the USSR, even in the unlikely event that further massive aid of several hundred million dollars were offered. The substantial foreign exchange cost of India's military establishment is unlikely to be cut so long as tensions with Pakistan continue. We do not believe that Nehru would make significant changes in his general foreign policy either to obtain or as a result of Western aid.

5. If India can manage to fill all or most of the foreign exchange gap, the hard core program can probably be completed.

¹For other aspects of the Indian situation, see NIE 51-56, "India Over the Next Five Years," dated 8 May 1956.

~~SECRET~~

2

This would not solve all India's problems, but it would bring India closer to the point where its growth would be self-sustaining. If little or no further foreign aid is forthcoming, economic deterioration would be almost certain and the danger of economic stagnation great.

6. It is impossible to estimate with precision how great a reduction in the hard core program could be absorbed without serious repercussions. Certainly there still are parts of the program which could be eliminated with only minor difficulties, and parts could be stretched out beyond 1961. Much of the program, however, consists of interrelated industrial complexes which have already been started and which stand or fall together. A substantial cut in the hard core would hence result in significant increases of unemployment and might cause a decline in the already low standard of living, with consequent threats to political as well as economic stability. The risk of these effects would be increased if, as we believe likely, India presses ahead with the whole hard core plan, relying on its own limited foreign exchange resources and the hope of obtaining aid. This course could only be pursued for about a year. If by that time substantial foreign aid had not materialized, there would have to be an abrupt major cutback in the program. Such a cutback would have a more disastrous impact than changes made gradually and while there was enough slack to cushion the shock.

7. The political fortunes of Nehru and the Congress Party are closely tied to the plan. Failure of the plan would hasten the disintegration of the Congress Party and threaten the continuance of democratic government. There is now no other coherent opposition force except the Communists, and they would stand to make important political gains from the collapse of the Congress Party. Success with the plan would probably permit the Congress Party to retain power in the 1962 elections and would provide the kind of environment in which a moderate conservative party could emerge when and if the present Congress Party breaks up. Even if the plan is successful, India's long-term ability to carry on as a united and democratic nation cannot be taken for granted, since India would continue to face many serious problems.

8. Other Asian countries will compare the results of India's development efforts with the experience of Communist China. They will construe India's success or failure as showing whether their own economic advance can be achieved through democratic methods. Failure would make such countries far more susceptible to Communist subversion and more likely to adopt authoritarian methods. If India succeeds, its influence in Asia will probably increase. Other countries will probably conclude that a neutralist policy is no bar to Western aid. Those that have aligned themselves with the West will press for increased Western assistance.

DISCUSSION

THE PRESENT ECONOMIC SITUATION

9. Independence brought great hopes for a new order in India. To fulfill these hopes in the economic field, Prime Minister Nehru and

the Congress Party set up a series of five year plans which provided for a major change in the structure of India's economy. To ensure success the government felt it necessary to

~~SECRET~~

~~SECRET~~

3

stir up wide popular interest in and support for the plans. As a result these plans have now become a symbol of the aspirations of the Indian people and have served to stimulate greatly increased efforts at almost all levels of the economy.

10. The first plan (1951-56), stressing increased agricultural production, was a marked success, achieving an 18 percent increase in national income against a goal of 14 percent. The Second Five Year Plan (1956-61) is now in serious difficulties and it is recognized in India that it cannot be carried out in full. The Indian government is determined, however, to make every effort to carry out a reduced plan but even this goal is threatened by a large gap in foreign exchange resources. A major failure of this reduced plan would have profound effects, not only on the entire economy, but on popular attitudes, the internal political situation and the government's prestige and influence in Asia.

11. The ambitious Second Five Year Plan was designed to accelerate the rate of economic growth with particular emphasis on broadening the industrial base. It was felt that only thus could employment for the expanding population be supplied, and the growing expectations for improved standards of living be satisfied. The plan called for a total investment over twice that made under the first plan. National income was to increase by 25 percent. This would result in a per capita increase of about 2.5 percent a year. Most importantly, about 50 percent of the new plan investment was to be in large developmental projects, such as heavy industry, power and transportation. As originally programmed, the foreign exchange requirements for the total plan were approximately \$2.5 billion which was \$1.7 billion in excess of India's anticipated earnings and planned draw-down of available reserves. The gap was subsequently calculated to be \$2.3 billion. Initially, however, the government felt that the short-term foreign exchange position was favorable and that assistance would become available to bridge the gap which was not expected to become pressing until the third year of the plan.

12. A number of unexpected developments are threatening the carrying out of the plan. There have been unexpected increases in India's foreign exchange requirements due in part to substantial miscalculation of the costs of some of the large projects. In addition, an unexpected boom in the private sector has resulted in private imports of capital goods and industrial raw materials earlier and at a greater rate than anticipated. Despite a succession of good crops, the government has been forced to import several million tons more food grains than planned. The government underestimated both the rate of population growth and the extent to which rising incomes would increase consumption and hoarding of food, particularly rice, by the peasantry. While the bulk of additional food imports has been purchased on a loan basis under the US PL 480 program, the remainder is increasing the strain on India's foreign exchange reserves. India's foreign exchange reserves have declined by \$800 million and would have fallen even farther if India had not drawn \$200 million from the International Monetary Fund. This is about twice the amount they were scheduled to decline over the entire five-year period. Total reserves, excluding gold, as of 27 September 1957, were \$740 million.

13. At the same time, there have been sharp rises in the domestic price level, in contrast to the relative stability of prices during the first plan. Although industrial and agricultural production have increased rapidly during the first eighteen months of the second plan, the availability of goods has not kept pace with increases in demand.

14. The government has already taken a number of steps to cope with the problems of foreign exchange and inflation. It has increased taxes sharply, including taxes on everyday items of consumption and business activities. It has drastically cut all except essential imports. Finally, it has modified the original goals of the plan, cutting it to what the government considers a minimum or "hard core" program and reducing the amount of planned deficit financing.

~~SECRET~~

15. While the "hard core" has never been precisely defined, it includes — in the public sector — the steel mills, coal mines, railway and port development programs, power projects, and several machinery plants and other factories. Reducing the plan to the hard core will result, according to Indian officials, in a 10 to 15 percent cut in the public sector of the original investment program. In addition, further investment in the private sector of the program might have to be reduced under the hard core concept, unless private Indian investors are able to make their own arrangements for medium or long-term foreign credits.

16. The reduction of the plan to the hard core and the other measures already taken will reduce the amount of foreign loans needed between now and 1961; but will still leave a substantial foreign exchange gap. This gap is now estimated by the Indian government to be about \$1.4 billion. Though there are many variables, we believe this to be a reasonable figure.² The requirements for foreign exchange could be increased in several ways, e.g., by increases in military expenditures beyond the level assumed in computing the \$1.4 billion gap, or by the failure of agricultural production to rise as rapidly as anticipated. An actual crop failure would constitute an additional drain on foreign exchange of several hundred million dollars. Conversely, if India had a year or two of spectacular harvests — as occurred in the third and fourth years of the first plan — some planned foodgrain imports could probably be eliminated, thereby reducing the foreign exchange gap.

THE ECONOMIC OUTLOOK

17. If India can close the foreign exchange gap, it will almost certainly be able to carry out the hard core of the plan. With adequate availability of foreign exchange, economic

² We do not know the extent to which the cost of India's military re-equipment program is included in computing this gap. (See para. 25.) India expects to reduce the gap by obtaining an additional \$300 million from the IBRD and further drawing down its reserves by \$320 million.

progress will probably proceed at a rate sufficient to enable the government to marshal the necessary domestic resources. While success of the hard core would still leave India with a low standard of living, it would provide the country with an industrial base which would allow it to produce a large part of the material needed for further industrialization. (For example, India imported nearly \$690 million worth of steel in 1956. It will be nearly self-sufficient in steel in 1961 if the hard core of the plan is carried out.) Perhaps even more important, achievement of the hard core would give the Indian leaders the confidence that they were capable of transforming their country from a backward to a modern state, and would bring the economy closer to the point at which economic development becomes self generating.

18. The consequences of failure to fill the foreign exchange gap cannot be predicted with precision. They would depend on two factors, i.e., the extent of the cut in the program which would be required and the circumstances under which the decision to cut was made. If the plan were further scaled down before foreign exchange resources are reduced to the danger point, the government would retain some maneuverability in cushioning the serious impact of any major cut. On the other hand, if India should proceed full tilt with the hard core until it is faced with the immediate need to make major cuts due to lack of foreign exchange resources, the impact of such cuts would be aggravated.

19. In the extreme case of India's having little or no success in closing the foreign exchange gap a major part of the industrialization program would have to be abandoned in a year or so. The prospects of economic development would be virtually eliminated for some time to come and economic stagnation would probably result. This cutback could cause such a loss of confidence as to lead to a decline in the international value of the rupee and a flight of capital including widespread smuggling. Private investment would almost certainly fall sharply, unemployment would rise and a steady decline in the standard of living would set in.

~~SECRET~~

~~SECRET~~

5

20. If India is able to obtain a major part, but not all of its foreign exchange requirements, the economic consequences would probably not be serious. Although the Indian government believes that it is now working on a minimum program, there almost certainly are still some projects that could be cut without serious repercussions in the economy. By careful planning, the time period for some projects could be stretched out and a transition made gradually to a slightly more modest but still effective development program.

21. A substantial cut in the plan would require cancellation of one or more major projects, including the related power and communication developments, and would create serious difficulties. Most of the large projects are already underway with local construction started and contracts or commitments made for foreign equipment. An immediate effect of cancellation would be to increase unemployment within the area of the project. There would also be repercussions beyond the immediate area since, as a general matter, the various parts of the program are closely interrelated.³ Continued private investment would be affected since private development depends on public transportation and power. The government would be forced to stretch out the plan considerably and to seek foreign aid over a longer period of time. Depending on the size of the cutbacks and the extent to which the plan was stretched out, the rate of economic growth would fall, with an attendant increase in the chance of over-all failure and economic stagnation.

22. Once the economy had lost momentum, it would probably drift toward its traditional stagnant condition, with the problem compounded by a population growth of 6 to 7 million annually. While the government might be able to continue its agricultural development program at a level which would prevent population from outrunning food supply, it would be unable to promote the industrialization necessary to provide jobs for the ever increasing labor force, and it would

³ For example, connected with the building of a steel mill are the development of coal and ore mines, power and communications facilities, etc.

be difficult to revive the business confidence necessary for private investment.

PROBABLE INDIAN COURSES OF ACTION

23. India's course of action in the face of the developing economic situation will probably be determined principally by Prime Minister Nehru. While Nehru's interests and abilities have in the past been more in the political than in the economic field, he probably feels that the success of his government and party as well as the future of his country depend on the outcome of the development program. He is probably also convinced that the Western powers place considerable importance on India's future stability and will be under pressure to come to its assistance. These factors are likely to result in his taking a more risky course than might be advocated by some of his more conservative advisors.

24. Consequently, we believe it likely that for the next several months India will push ahead with the hard core, drawing down on its dwindling foreign exchange reserves and continuing stringent restrictions on foreign exchange expenditures, while making an all-out effort to obtain foreign aid. The period during which such a course can be pursued without an obvious breakdown could probably be lengthened somewhat by a slowdown on some of the less well known projects in the hard core. Even this, however, will be difficult since heavy commitments for purchases abroad have already been made. India may also combine its hitherto untouched \$247 million gold reserves with its foreign exchange holdings in an effort to provide a more impressive balance. These measures, however, would not eliminate the necessity for obtaining substantial foreign loans within the next year.

25. India might be able to reduce the pressure on its foreign exchange reserves by a reduction in military expenditures but not to the extent of solving its foreign exchange problem. India is engaged in a major re-equipment program, particularly for the air force and navy. This program will involve substantial foreign exchange costs over and above the past rate of expenditure. The

~~SECRET~~

~~SECRET~~

extent to which the future costs of the re-equipment program are included in computing the \$1.4 billion foreign exchange gap is not known. The foreign exchange expenditures in 1956-57 were about \$125 million. Any exact estimate of the cost of the re-equipment program cannot be made, nor the time when payments have to be made. While military expenditures constitute a significant claim on foreign exchange resources, these expenditures are considered vital by the Indian government in order to maintain an approximate two-to-one ratio of superiority over Pakistan's armed forces. Substantial cuts in these expenditures, unless there were a reduction in Pakistan's armed strength, would almost certainly be unacceptable to the Indian government.

26. There appears to be a hope and even a tacit presumption in Indian business and official circles that the West will somehow provide the financial assistance needed to weather the crisis, although India's efforts to obtain additional aid from Western governments have been unsuccessful to date. It hopes to secure an additional \$300 million in loans from the IBRD, which has already made loans during the second plan period of about \$100 million to India. Both Prime Minister Nehru and Finance Minister Krishnamachari have recently made clear that India now believes it must rely primarily on the US for the aid it needs. They probably also feel that a substantial loan from the US would improve India's chances of obtaining the remainder from other sources, such as the UK, Canada, Japan, and West Germany. India may attempt to persuade West Germany to finance the steel mill which the latter is building in India.

27. India has already demonstrated that it is prepared to go further than has been the case in the past to attract foreign assistance. A relaxation in the official attitude toward private capital — perhaps inspired by the fact that the private sector has to date overfulfilled its assigned role in the development program — has recently been evident. India has signed an investment guarantee agreement with the US and reduced restric-

tions on the operations of foreign private companies. In addition, Finance Minister Krishnamachari has indicated that India is prepared to transfer to the private sector several industries now reserved to the public sector. This trend will probably continue — especially if additional private foreign investment in India is forthcoming. While India is unlikely to abandon its socialist principles, Nehru's application of socialism has always been pragmatic.

28. In the foreign policy field, the volume of Nehru's public attacks on Western policy has decreased slightly in recent months and he has apparently instructed Krishna Menon to say some favorable words about the "good intentions" of the US. It is unlikely, however, that Nehru will be prepared to compromise the main lines of his neutralist policy to obtain foreign assistance. Failure of the West to provide aid would probably be interpreted in India as an indication of the West's indifference to India's efforts to improve the lot of its people, and as an attempt to apply political pressure on India. This would probably produce increased anti-Western, and especially anti-US, sentiment.

29. Finally, India will be concerned to avoid hurting its chances for additional aid from the Soviet Bloc or losing Soviet political support on international issues it considers vital to its interests, such as Kashmir. We believe that Nehru would prefer to receive the bulk of the needed aid from the West rather than from the Bloc — both because of his own basically democratic beliefs and because of the heavy orientation of India's economy toward the West. Specifically, most of the development projects have been started with Western equipment and a major conversion to Bloc equipment would be difficult. Faced with the choice of getting the aid required either from the Bloc or not at all, Nehru would probably accept as much as he could get "without strings" from the Bloc — and might even seek it there. In light of the past pattern of Bloc aid to the underdeveloped countries and the heavy commitments to the satellites which the USSR has assumed, we believe it unlikely that the USSR will offer the total amount of

~~SECRET~~

aid required to ensure success of the plan, but is likely to make additional credit offers at the opportune time.⁴

30. India might further step up its military expenditures if it believed that Pakistan was increasing its military buildup or becoming more belligerent. In this case Nehru might avoid diverting further foreign exchange from the development program by accepting Soviet arms, if offered on satisfactory credit terms. Previous offers by the USSR have been turned down by India. There are factors which would militate against the acquisition of Soviet arms. The Indian military establishment is largely equipped with Western equipment and the addition of Soviet materiel would introduce serious difficulties. Further Nehru would probably fear that acquiring Soviet arms would jeopardize the receipt of Western economic assistance. Nevertheless, under certain circumstances India might accept such arms.

INTERNAL POLITICAL REPERCUSSIONS

Nehru and the Congress Party

31. Prospects for political stability in India depend in large measure on successful implementation of the development plan. The economic difficulties of the past year, particularly rising prices, have added substantially to public dissatisfaction with the government and the Congress Party. This dissatisfaction was revealed in the substantial "protest vote" against the Congress Party in the February 1957 elections and contributed to the Communist victory in Kerala State.

32. Since then the political repercussions of the economic crisis have become increasingly manifest. Resentment over the rising cost of

living led to threats of a strike by large groups of government employees in August. The strike was averted only by the government's rushing through parliament a bill banning strikes in essential services and by promises to set up a mechanism for consideration of pay increases. Leftist agitation and work stoppages protesting increased food grain prices have been frequent in the Calcutta area during recent months. Many of the local Congress Party leaders are from the middle class which has felt most acutely the burden of new taxes. They have shown increasing signs of discontent with party policy. In late May, an unofficial motion was introduced for the first time but rejected in the Congress Party central working committee recommending that Nehru resign from the premiership.

33. Popular restiveness in the urban areas is almost certain to increase in the next few years, due to the increased austerity measures which will be necessary, even if enough foreign aid is obtained, to meet the main goals of the development program. However, the government appears to be convincing the people that completion of the hard core, which includes the monumental dams and steel mills, will mean continued economic progress even though it will be some time before they feel the full benefit of it. If the hard core is fulfilled, it is unlikely that stresses within the Congress Party or its general loss of popularity will be sufficiently great to threaten seriously its control of the country before or during the next elections. These are due by the spring of 1962 — about a year after the end of the plan period.

34. Even if the development program is successful, we believe that the forces working toward a gradual disintegration of the Congress Party will persist. India's long-term ability to carry on as a united and democratic nation cannot be taken for granted, since India would continue to face many serious problems. Success would, however, give a democratically inclined leadership both the political and economic wherewithal to continue with a fair chance of success India's struggle for unity, stability, and economic betterment.

⁴ India has already received \$270 million in long term credits from the Bloc, mostly for industrial development. Of this sum, \$262 million has come from the USSR which is constructing and providing the foreign exchange for the Bhilai steel plant. Of the \$262 million Soviet aid, \$126 million may not become available until 1959. Additional Bloc offers of credit to India which have not yet been accepted total about \$45 million. An estimated 350 Bloc specialists were in India as of mid-1957.

~~SECRET~~

~~SECRET~~

8

35. Should the government cut out major components of the plan in an effort to scrape through the crisis without substantial additional foreign aid, dissatisfaction would probably become nationwide. There would be widespread realization that the objectives of the plan were not going to be achieved and that the present dire economic plight of the individual was not going to improve in the foreseeable future. Those areas in which planned projects were eliminated would probably become involved in recriminations with the central government and more fortunate states. The Congress Party and the plan have become so closely identified that a withdrawal of support from the Congress Party — or at least from the national leadership — would be likely, particularly in the disappointed areas. Weakening of the national party would increase the chances of a resurgence of the sectional and linguistic conflicts which have plagued India in the past. Such developments would almost certainly hurt the Congress Party severely in the 1962 elections and would make likely the loss of control in West Bengal and perhaps other states, even if a majority could be maintained in the central legislature. In such circumstances relations between the central government and the states would almost certainly deteriorate as locally-oriented groups and leaders came to power in some states and began to promote their provincial or communal interests.

36. A serious breakdown of India's development program probably would shake its political structure and ideology. Barring a crop failure, the bulk of the peasants could probably stagger along, as they have for centuries. However, a breakdown of the development program would probably be interpreted by political leaders and by the fairly large and influential politically-conscious portion of the public as evidence that the kind of a society and leadership that they had subscribed to was incapable of coping with India's problems. The course of political developments in such a situation cannot be estimated precisely, but a high degree of political confusion and a sharp decrease in general stability can be forecast.

37. The morale of the Congress Party would suffer badly, and within the party there would

probably be a decline in Nehru's authority. Nehru might choose to resign — either as the only "honorable course" consequent upon his failure or in the hope of clearing the way for a chosen successor to pick up the pieces. Other Congress leaders, eager to gain control and hopeful of preserving the party by establishing a new policy, might attempt to force his ouster. Open conflict in one form or another between the left and right wings of the party would be almost certain.

The Opposition

38. The poor showing made by both rightist and non-Communist leftist opposition parties in the 1957 election, their lack of leadership and failure to develop an alternative program to that of the Congress makes it unlikely that any one of them will become an important national factor in India in the foreseeable future. However, a split in the Congress Party could result in a merger of the Congress left wing and the socialists. Such a combination, devoted to a more radical socialist approach under new leadership, might eventually develop considerable popular appeal. Depending on the degree of popular defection from the Congress Party, the rightist parties, whose strength is largely regional, might be able by 1962 to win control in one or two states.

The Communists

39. The Communists are by far the best equipped to take advantage of a decline in Congress power. The Communist Party, in the 1957 elections, proved itself the largest and best-organized of the opposition parties.⁵ It will probably take the lead in agitation aimed at increasing popular discontent, and it has an established base from which to work in Kerala. The Communist Party has in recent years attained a greater degree of "respectability" than ever before — as a result of its elec-

⁵ The Communists won 10 percent of the popular vote — twice as much as in 1952. They won representation in all state legislatures, and for the first time gained control of a state government by defeating the Congress Party in Kerala.

~~SECRET~~

~~SECRET~~

9

tion victory in Kerala, of the cordial relations which have developed between India and the Sino-Soviet Bloc, and of the tendency of the Congress Party to treat it simply as "another political party." A major breakdown in the development program would almost certainly find the Communists ready to present an attractive alternative program to the country. This would probably lead to a significant increase in their national following and to their winning power in West Bengal and perhaps other states in 1962. The party might even achieve a position in parliament in which it could limit the ability of the Congress Party government to rule effectively. A resurgence of past factionalism within the Communist Party, however, would reduce its ability to take full advantage of Congress Party losses.

40. The degree to which the Communists are able to benefit from Congress losses probably depends fairly directly on the kind of economic situation which prevails over the next few years. A successful development program would deprive the Communists of their most effective appeal—except probably in West Bengal where Calcutta has been unable to compensate for the loss of its economic hinterland as a result of the partition of British India in 1947.

The Civil and Military Services

41. The powerful Indian civil and military services, still deeply imbued with the British tradition of non-involvement in politics, are unlikely to attempt to assume political power as long as some prospect of stability remains. In the event of a major cutback in the development program, the services would probably be able to enforce the government's austerity program and deal with popular unrest.

42. A breakdown of authority which endangered the stability of the country or promised to bring the Communists into power would probably move the services to assume an active role in the struggle for control of the government. In such a struggle, they would almost certainly win the initial victory, and, using the remnants of the Congress or a coalition of moderates as a facade, would probably be able to hold control of India for a considerable time. However, they would not command much popular support and would be unlikely to be able to unite the country behind them in a new try for economic progress.

IN ASIA

43. The success of India's Second Five Year Plan would indicate to Asian leaders that economic development can be achieved without the use of totalitarian methods. India's influence in the area would probably increase. At the same time most countries in the area would probably conclude that a neutralist foreign policy did not debar substantial economic aid from the US, and the political forces in nearby countries which favor neutralism would probably be strengthened. This conclusion would cause considerable resentment in those states which have adopted pro-US policies, and they would press the US for increased assistance.

44. If the Indian plan fails, especially if Communist China continues to make comparatively rapid advances, other Asian countries would very likely conclude that their economic problems could not be solved through a combination of democratic methods at home and Western aid. They would become far more susceptible to Communist subversion combined with Bloc aid and would be inclined to adopt authoritarian measures.

~~SECRET~~

~~SECRET~~

~~SECRET~~